



State of California

Employment Training Panel

Arnold Schwarzenegger, Governor

September 24, 2008

Larry Lee
Business Services Manager
Southeast Los Angeles County Workforce Investment Board
10900 East 183rd Street, Suite 350
Cerritos, CA 90703

Dear Mr. Lee:

Enclosed is our final report relative to our review of Southeast Los Angeles County Workforce Investment Board's (SELACO) compliance with the Employment Training Panel Agreement No. ET03-0133 for the period September 3, 2002, through September 2, 2004.

We did not receive a response to the draft review report; therefore, our findings and recommendations remain unchanged.

Also enclosed is a demand letter for payment of costs disallowed in the review report. Payment is due upon receipt of this letter. If you wish to appeal the review findings, you must follow the procedure specified in Attachment A to the review report.

We appreciate the courtesy and cooperation extended to our auditors during the review. If you have any questions, please contact me at (916) 327-5439.

Sincerely,

Original signed by:

Charles Rufo
Audit Director

Enclosures

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SOUTHEAST LOS ANGELES COUNTY WORKFORCE INVESTMENT BOARD

Agreement No. ET03-0133

Draft Review Report

For The Period

September 3, 2002 through September 2, 2004

Report Published September 24, 2008

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REVIEW REPORT

Summary

We reviewed Southeast Los Angeles County Workforce Investment Board's compliance with Agreement No. ET03-0133, for the period September 3, 2002 through September 2, 2004. Our review pertained to training costs claimed by the Contractor under this Agreement. Our review was performed during the period February 28, 2007 through May 1, 2007, except for Finding Nos. 1 and 2, for which our report is dated February 6, 2008.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$1,887,610. Our review supported \$1,873,628 is allowable. The balance of \$13,982 is disallowed and must be returned to ETP. The disallowed costs resulted from eleven trainees who did not meet minimum wage requirements, three trainees who did not meet post-training retention requirements, one trainee employed in an ineligible occupation, and one ineligible trainee. In addition, we noted an administrative finding for inaccurate reporting of trainee wage rates.

REVIEW REPORT (continued)

Background

Southeast Los Angeles County Workforce Investment Board (SELACO) is a non-profit organization which provides services to approximately 3,500 individuals each year. Over the past three years, the SELACO Business Services Unit, under which the ETP program operates, has provided various business services to over 2,500 businesses.

This Agreement was the sixth training project between ETP and SELACO, and focused on retraining workers threatened with out-of-state competition. Moving to a high-performance workplace, workers in danger of being displaced, and promotion of California's manufacturing workforce were held to be Legislative priorities of this Agreement. To address these priorities, SELACO proposed to provide training in Continuous Improvement, Manufacturing Skills, Business Skills, Computer Skills, Management Skills, and Literacy Skills. The Contractor also proposed to provide center-based training in Lead Skills/Frontline Supervision, Project Management, Customer Service, Communication Skills, and Lean Manufacturing to multiple employers employing fewer than 100 employees.

This Agreement allowed SELACO to receive a maximum reimbursement of \$2,208,940 for retraining 2,380 employees. During the Agreement term, the Contractor placed 2,057 trainees and was reimbursed \$1,887,610 by ETP.

Objectives, Scope, and Methodology

We performed our review by authority of Title 22 California Code of Regulations, Sections 4443 and 4448. Our scope was limited to reviewing the Contractor's compliance with trainee eligibility and post-training requirements specified in the Agreement. We did not review the Contractor's records for compliance with training attendance or other Agreement requirements.

Specifically, our review scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.

REVIEW REPORT (continued)

Conclusion	As summarized in Schedule 1, Summary of Review Results, and discussed more fully in the Findings and Recommendations Section of our report, our review supported \$1,873,628 of the \$1,887,610 paid to the Contractor under this Agreement is allowable. The balance of \$13,982 is disallowed and must be returned to ETP.
Views of Responsible Officials	<p>The review findings were discussed with Larry Lee, during a telephone exit conference held on February 13, 2008, and via e-mail on March 19, 2008, and April 24, 2008. A draft review report was issued to the Contractor on August 19, 2008. The Contractor did not respond in writing to the draft review report.</p> <p>The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning May 2, 2007, through the issue date of this final audit report. The interest waiver (adjustment) was \$1,812.61, which was deducted from the total accrued interest.</p>
Appeal Rights	If you wish to appeal the review findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
Records	Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment [December 8, 2005] from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."
	Charles Rufo Audit Director
Fieldwork Completion Date:	May 1, 2007, except for Finding Nos. 1 and 2, for which our report is dated February 6, 2008

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET03-0133 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Review Results

SOUTHEAST LOS ANGELES COUNTY WORKFORCE INVESTMENT BOARD

AGREEMENT NO. ET03-0133

FOR THE PERIOD

SEPTEMBER 3, 2002 THROUGH SEPTEMBER 2, 2004

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 1,887,610</u>	
Disallowed Costs:		
Minimum Wage Requirements Not Met	10,557	Finding No. 1
Post-Training Retention Requirements Not Met	2,399	Finding No. 2
Ineligible Trainee Occupation	1,026	Finding No. 3
Ineligible Trainee	-	Finding No. 4
Inaccurate Reporting	<u>-</u>	Finding No. 5
Total Costs Disallowed	<u>\$ 13,982</u>	
Training Costs Allowed	<u><u>\$ 1,873,628</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Minimum Wage Requirements Not Met Trainee employment information shows 11 trainees did not meet the minimum wage requirements specified in the Agreement. Therefore, we disallowed \$10,557 in training costs claimed for Job Nos. 1, 4, 5, and 8 trainees. Noncompliance with minimum wage requirements was previously disclosed in our review of ETP Agreement No. ET01-0207.

Exhibit A, paragraph VII. A. of the Agreement between Southeast Los Angeles County Workforce Investment Board (SELACO) and ETP states, "...Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement]."

The Agreement required that Job Nos. 1, 4, 5, and 8 trainees employed in Los Angeles County earn a minimum wage rate of \$11.78 per hour following the post-training retention period. Job No. 4 trainees employed in Orange County (Trainee No. 6) were required to earn a minimum wage rate of \$11.66 per hour. The Agreement allowed the Contractor to include the dollar value of employer-paid health benefits to meet minimum wage requirements.

The table below shows the wage reported by SELACO (inclusive of health benefits), required wage rate, actual wage provided by the employer, and employer-paid health benefits, if applicable. The employers for all trainees except Trainee Nos. 4 and 13 responded to our request for employment information. The actual wage rates shown for Trainee Nos. 4 and 13 were the base hourly wage reported by SELACO as employer-paid health benefit documentation was not provided.

Trainee No.	Job No.	Reported Wage Rate	Required Wage Rate	Wage Rate Per Employer	Employer-Paid Health Benefits	Total Actual Wage Rate
3	8	\$11.97	\$11.78	\$8.25	\$1.17	\$9.42
4	5	\$11.85	\$11.78	n/a	n/a	\$8.25
6	4	\$11.25	\$11.66	\$9.00	\$0.56	\$9.56
7	4	\$12.10	\$11.78	\$8.24	\$1.14	\$9.38
8	4	\$12.34	\$11.78	\$8.50	n/a	\$8.50
9	4	\$12.34	\$11.78	\$10.05	n/a	\$10.05
10	4	\$12.34	\$11.78	\$9.05	\$1.91	\$10.96
11	1	\$11.78	\$11.78	\$8.56	n/a	\$8.56
12	4	\$11.84	\$11.78	\$8.00	\$1.14	\$9.14
13	4	\$11.80	\$11.78	n/a	n/a	\$9.55
14	4	\$11.86	\$11.78	\$8.50	\$1.14	\$9.64

FINDINGS AND RECOMMENDATIONS (continued)

Recommendation SELACO must return \$10,557 to ETP. In the future, SELACO should ensure all trainees meet minimum wage requirements and obtain documentation of employer-paid health benefit costs, if necessary, before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Employment information shows three trainees did not meet post-training retention requirements as specified in the Agreement. Since Trainee No. 3 was previously disallowed in Finding No. 1, we disallowed \$2,399 in training costs claimed for Trainee Nos. 1 and 2 (\$945 + \$1,454). Noncompliance with post-training retention requirements was previously disclosed in our review of ETP Agreement No. ET01-0207.

Post-Training
Retention
Requirements Not
Met

Exhibit A, paragraph VII. A. of the Agreement states, “Each trainee must be employed full time, at least 35 hours per week with the Contractor or a single participating employer for a period of at least ninety (90) consecutive days immediately following the completion of training.”

The table below shows the retention period, termination date, and average hours per week for each of the three trainees.

Trainee No.	Job No.	Post-Training Retention Period	Date Trainee Terminated	Average Hours Per Week
1	4	05/13/04 - 08/10/04	5/9/04	n/a
2	3	12/18/03 - 03/17/04	n/a	1
3	8	06/04/04 - 09/02/04	n/a	0

Additionally, Employment Development Department (EDD) base wage information supports these trainees were either not employed or not employed full-time during the identified retention period or any subsequent 90-day period up to the Agreement end date.

Recommendation SELACO must return \$2,399 to ETP. The Contractor should ensure each trainee meets all post-training retention requirements specified in the Agreement before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – Trainee employment information shows one Job No. 5 trainee was
Ineligible Trainee not employed after training in an eligible occupation specified in the
Occupation Agreement. As a result, we disallowed \$1,026 in training costs
claimed for this trainee.

Exhibit A, paragraph VII. A. of the Agreement between SELACO and ETP states, "Employment for each trainee shall be in the occupations listed in [the Agreement]...." The occupations for Job No. 5 were Production, Clerical, Lead, Supervisor, Assembly, Machinist, Engineering Support, Operation Support, Production Control, and Materials Staff. None of the occupations listed were for senior level managers or executive staff.

SELACO reported the hourly wage after completion of training for Trainee No. 5 was \$88.00. The employer for Trainee No. 5 confirmed the trainee was employed in an executive position, as the Chief Executive Officer (Co-Founder) during September 2004. Thus, the trainee was not employed in a position specified in the Agreement.

Recommendation SELACO must return \$1,026 to ETP. In the future, SELACO should ensure all trainees are employed in an occupations identified in the Agreement prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 4 – Ineligible Trainee Employment information shows one Job No. 3 trainee was ineligible to receive training. The trainee did not meet employment requirements prior to the start date of training. Since Trainee No. 2 was previously disallowed in Finding No. 2, no additional disallowed costs are incurred.

Unemployment Insurance Code, Section 10201(c) and Exhibit A, paragraph III of the Agreement requires that retrainees be employed full-time by the Contractor or a participating employer for at least 90 days before the trainee begins training. Otherwise, to be eligible a retrainee must have been employed at least 20 hours per week for at least 90 days by an eligible employer during the 180-day period preceding the trainee's hire date with the current employer.

SELACO reported Trainee No. 2 began training on October 8, 2003, and was hired on June 5, 2002. However, Employment Development Department (EDD) base wage information shows approximately only 1 hour per week during the 90-day and/or 180-day period preceding the trainee's hire date.

Recommendation In the future, the Contractor should ensure that all retrainees meet eligibility requirements before beginning training.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 5 – Trainee hourly wage rates reported by SELACO on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements. Noncompliance with reporting requirements was previously disclosed in our review of ETP Agreement No. ET01-0207.

Inaccurate
Reporting

Paragraph 2(d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.”

Accurate, complete trainee wage rate information is required to verify compliance with Exhibit A, paragraph VII. A. of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates for 33 trainees. Actual wage rates were identified from employer payroll records or written confirmations provided by employers. Trainee wage rates reported by SELACO varied by more than 5 percent from the employer reported wage rates for 19 of the 33 trainees (58 percent).

Recommendation In the future, SELACO should ensure all trainee data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A - APPEAL PROCESS

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006